

**STATE OF VERMONT
DEPARTMENT OF FINANCIAL REGULATION
SECURITIES DIVISION**

IN THE MATTER OF:)	
)	Docket No. 13-046-S
CCO INVESTMENT SERVICES,)	
CORP.)	
)	
)	

ADMINISTRATIVE CONSENT ORDER

WHEREAS, CCO Investment Services, Corp. ("Respondent") is registered as a broker-dealer pursuant to Vermont Uniform Securities Act (2002) 9 V.S.A. Chapter 150, as amended (the "Securities Act"); and

WHEREAS, since November 2005, Respondent has employed or associated with George Jones "Rip" Lincoln IV ("Lincoln"), CRD #2111517, who is registered as an agent in Vermont pursuant to the Securities Act; and

WHEREAS, under the Securities Act, the Commissioner (the "Commissioner") of the State of Vermont Department of Financial Regulation (the "Department") has general supervision and control over any and all broker-dealer firms and their agents, residing or doing business in Vermont; and

WHEREAS, as a result of the Department's having investigated Respondent in connection with possible violations of the Securities Act, it has determined to impose administrative sanctions upon Respondent to resolve the above captioned matter, to which Respondent does stipulate and consent, all as set forth below.

JURISDICTION

Respondent admits the jurisdiction of the Commissioner and expressly consents to the entry by the Commissioner of this Order Imposing Administrative Sanctions and Consent to same ("Consent Order"). Respondent agrees and elects to permanently waive its right to a hearing and appeal before the Commissioner or her designee, and all other procedures otherwise available under the Securities Act; 3 V.S.A., Chapter 25, the Vermont Administrative Procedure Act; the rules and regulations, and order of the Commissioner, or any right it may have to judicial review by any court by way of suit, appeal, or extraordinary remedy with respect to the Consent Order.

Respondent neither admits nor denies the Findings of Fact and Conclusions of Law contained in the Consent Order (except to jurisdiction), and waives compliance with the provisions of 3 V.S.A. Chapter 25 regarding contested cases. In addition, Respondent recognizes, accepts and agrees that a condition of the Consent Order is that Respondent may not take any action, or make or permit to be made any public statement, including any statement in regulatory filings or otherwise, that denies, directly or indirectly, any allegation in this Consent Order or creates the impression that the Consent Order is without factual basis. Nothing in this provision affects Respondent's: (i) testimonial obligations in the context of compulsory testimony; or (ii) right to take contrary legal or factual positions in litigation or other legal proceedings in which the Commissioner is not a party.

FINDINGS OF FACT

1. Respondent is a Rhode Island corporation with a principal place of business in Massachusetts that engages in the business of effecting transactions in securities in Vermont and is registered with the Department as a broker-dealer, CRD #39550.

2. From at least November 2005 through the date of this Consent Order, Lincoln has been employed as an agent of Respondent and is registered with the Department as an agent, CRD #2111517.
3. From approximately November 2005 to the present, Respondent supervised Lincoln.
4. In 2011, the Department received a complaint regarding Lincoln's potential sales practices violations.
5. In July 2012, the Department notified Lincoln that he was under formal investigation.
6. From approximately 2008 to 2012, ("Relevant Period") Lincoln, an agent of Respondent, recommended and sold to certain of his clients, among other investments, mutual funds focused on certain sectors of the economy, including funds that invested in international public companies in the gold mining and natural resources industries ("Sector Funds"). Because the Sector Funds' holdings are concentrated in a single industry, there can be a lack of diversification associated with these types of investments.
7. In certain circumstances, Lincoln, an agent of Respondent, recommended Sector Funds to certain customers that were unsuitable based on the customers' circumstances and investment profiles.
8. For each new client, Lincoln, an agent of Respondent, kept certain records ("Fact Finders"), which collected personal and financial information about the client, including but not limited to factors such as the client's age, dependents, assets, investments, objectives, and risk tolerance.
9. Respondent did not require Lincoln to provide to it the Fact Finders and Lincoln did not do so. Instead, Lincoln typically kept the Fact Finders in his files in his office.

10. In addition to the Fact Finders, Lincoln prepared records termed Client Profiles (“Client Profiles”) which contained information about the clients’ financial conditions, dependents, risk tolerances, and investment objectives. Respondent input information from the Client Profiles into its systems and used that information to supervise Lincoln and his clients’ securities transactions. In some cases, information in the Client Profiles was inconsistent with information in the Fact Finders, including information about the number of dependents of the client, retirement status of the client, risk tolerance, net worth, property holdings, investment-time horizon, and investment knowledge of the client. Those inconsistencies tended to indicate that the client had a moderate or aggressive risk tolerance.
11. Respondent’s supervisory procedures during the Relevant Period were not adequate to confirm that the Client Profile information for certain of Lincoln’s clients was accurate. Specifically, as part of routine supervisory procedures, Respondent audited the files Lincoln kept in his branch office, but Respondent did not compare the information on the Fact Finders to the Client Profiles or address any inconsistencies that existed between the Fact Finders and the Client Profiles.
12. Prior to March 2012, Respondent did not have adequate supervisory guidelines on concentration of client investments in particular mutual funds.
13. As a result of the aforementioned conduct, certain Vermont citizens invested in Sector Funds that were inconsistent with their actual investment objectives, financial conditions and needs and other relevant information, and thereby risked losses.

CONCLUSION OF LAW

1. Under 9 V.S.A. § 5412(d)(13) of the Securities Act, and the rules and regulations promulgated thereunder, a broker-dealer is prohibited from recommending the purchase of a security without having reasonable grounds to believe that such transaction or recommendation is suitable for the customer based upon reasonable inquiry concerning the customer's other securities holdings, investment objectives, financial situation and needs and any other relevant information known by the broker-dealer or agent. Order 06-43-S § 6.1 Exh.6.1 § 3.05.
2. By the conduct set forth in the foregoing Findings of Fact, by and through its agent, Lincoln, Respondent violated 9 V.S.A. § 5412(d)(13) and Order 06-43-S § 6.1 Exh.6.1 § 3.05 by recommending to certain customers that they purchase Sector Funds in amounts that were not suitable for them based upon the customers' other securities holdings, investment objectives, financial situations and needs.
3. A broker-dealer may be subject to discipline pursuant to the Securities Act if the broker-dealer "has failed to supervise reasonably an agent, investment adviser, representative or other individual, if the agent, investment adviser, representative or other individual was subject to the person's supervision and committed a violation of [the Securities Act] or a rule adopted or order issued under this [Act] or the predecessor act within the previous 10 years." 9 V.S.A. § 5412(d)(9); *see also* 9 V.S.A. § 5412 cmt. 12. ("The term 'failed to supervise reasonably' . . . includes not having reasonable supervisory procedures in place as well as a proper system of supervision and internal control.").

4. By the conduct set forth in the foregoing Findings of Fact, Respondent violated 9 V.S.A. § 5412(d)(9) by failing to reasonably supervise its agent, Lincoln, because Respondent lacked sufficient branch audit protocols.
5. Under 9 V.S.A. § 5604(a), the Commissioner, after determining that a person has engaged in an act that constitutes a violation of the Securities Act, may issue a final order directing the person to cease and desist from engaging in the act, to pay an administrative penalty, to make restitution, and to pay the cost of an investigation.
6. In consideration of these factors and others, the evidence details several mitigating circumstances, most compelling of which are: (1) Respondent's lack of a prior record of disciplinary action in Vermont; (2) Respondent's efforts to review all of the Sector Fund investments covered by Lincoln and, where appropriate, to reimburse clients who incurred losses from those investments; (3) Respondent's efforts to contact directly a number of such clients to further discuss their investments, investment objectives and financial situations and, where appropriate, to update their account profile information and reallocate their investments; (4) Respondent's review and, where appropriate, revision of relevant policies and procedures; and (5) Respondent's overall cooperation with the State of Vermont.
7. Pursuant to 9 V.S.A. § 5604(a), the Commissioner issues the following Consent Order.

CONSENT ORDER

NOW, THEREFORE, based on Respondent's Consent, and on the basis of the Findings of Fact and Conclusions of Law, the Commissioner issues the following Order, to be fully complied with following receipt by the Commissioner of the duly executed Consent to Entry of Administrative Order:

1. The Department CENSURES Respondent for its failure reasonably to supervise its agent and for, through the actions of its agent, making unsuitable recommendations as described in this Administrative Order.
2. Respondent shall CEASE AND DESIST from violating the Securities Act.
3. Respondent shall pay the amount of \$55,000 to the Department to reimburse the Department for its costs in this investigation.
4. Respondent shall further pay the amount of \$120,000 to the Department, to be apportioned as follows:
 - (i) Respondent will pay an administrative penalty in the amount of \$115,000; and
 - (ii) Respondent will donate \$5,000 to the Vermont financial services education and training special fund, pursuant to 9 V.S.A. § 5601 (d) and (e).
5. All payments required hereunder shall be effected within fifteen (15) days of the date hereof.
6. Within six months of the entrance of this Order, the Respondent will submit to the Department a written report describing its review of Sector Fund investments made by clients of Lincoln and describing any remedial measures, including but not limited to changes to written supervisory procedures Respondent has made to address the issues involved in this matter.

7. This Administrative Consent Order documents the resolution of all matters arising from the Department's above-referenced investigation and will not be a basis for action against Respondent by the Department arising out of these same events except in determining any action or penalty that may be imposed by the Department for any future violations of law by Respondent.
8. If Respondent fails or neglects to comply with any of the terms, conditions or undertakings set forth in this Consent Order, the Department may, upon written notice to Respondent, institute any legal or administrative proceedings it deems appropriate to enforce same and to seek such other appropriate sanctions.

This ORDER shall become effective immediately upon the date set forth below.

BY ORDER OF THE COMMISSIONER

Entered at Montpelier, Vermont this 11th day of Dec, 2013.



SUSAN L. DONEGAN, Commissioner
Vermont Department of Financial Regulation

Carby L. Sherman
Acting Commissioner

**CONSENT BY CCO INVESTMENT SERVICES, CORP.
TO THE ENTRY OF AN ORDER BY THE COMMISSIONER
IMPOSING TERMS, CONDITIONS AND UNDERTAKINGS
UNDER THE VERMONT UNIFORM SECURITIES ACT**

1. CCO Investment Services Corp., (“Respondent”), CRD #2111517, hereby admits the jurisdiction of the Commissioner over the subject matter of this proceeding, and solely, with respect to this matter, knowingly, unconditionally, and voluntarily waives any and all rights to a hearing before the Commissioner or her designee and all other procedures otherwise available under the Vermont Uniform Securities Act (2002), as amended (“Securities Act”), and any successor act, or the rules, regulations, and orders of the Commissioner of the Vermont Department of Financial Regulation (the “Commissioner”). Respondent also waives compliance with the provisions of 3 V.S.A., Chapter 25 regarding contested cases. Respondent acknowledges that this Consent Order constitutes a valid order duly rendered by the Commissioner.
2. Respondent acknowledges and agrees that the Consent Order is entered into freely and voluntarily and that no promise was made, nor was any coercion used, to induce the Respondent to enter into the Consent Order.
3. Respondent acknowledges its understanding of all terms, conditions, and obligations contained in the Consent Order and further acknowledges that should it fail to comply with any and all provisions of the Consent Order, the Commissioner may impose additional sanctions and seek other appropriate relief subject to the Respondent’s rights to a hearing pursuant to the Securities Act and any successor act.

4. Respondent neither admits nor denies the Findings of Fact or Conclusions of Law (except as to jurisdiction) contained in the Consent Order but consents to the issuance of this Consent Order and agrees to be fully bound by its terms and conditions as settlement of the issues contained in this Order.
5. Respondent states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

On behalf of CCO Investment Services Corp.

Signature: _____

Dated: _____

Typed Name: _____

Title: _____

BEFORE ME, this 2nd day of December, 2013, personally appeared Michael Millard who acknowledged that (s)he, as being authorized so to do, executed the foregoing for the purposes therein contained, and that such act of execution is his (her) free act and deed on behalf of CCO Investment Services Corp.

Notary Public

My Commission Expires: 9/7/17